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ABSTRACT

A survey of NACUBO institutions was made on a selective basis to determine what methods were being used and their degree of success in accomplishing the intended result. Patterns developed indicating that sound basic management techniques were being employed even by the smallest and presumably least sophisticated institutions. This bulletin presents a checklist of management methods covering: conservative expenditure budgets; management by exception; decentralized budget control and the use of annual meetings with budgetary heads; affixing of proper budget authority; purchasing techniques; swift and accurate reaction to purchase requisitions; print shop use; and amendment procedures for budgets. It is noted that budgetary control demands not only schemes for creating the proper environment and attitudes among the responsible department or program heads, but a process that provides current and meaningful reports to the administration. (Author/LBH)

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NACUBO Professional File

Budget Control and Analysis in the Small College

by A. Dean Buchanan

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In a period of stagnant growth and limited resources, many institutions are finding it essential to employ creative and perhaps unorthodox means in an effort to bring about a balanced budget.

Recently the writer undertook a survey of NACUBO institutions, on a selective basis, to determine what methods were being used and their degree of success in accomplishing the intended result. Patterns developed indicating that sound basic management techniques were being employed even by the smallest and presumably less sophisticated institutions. This is encouraging; it gives credence and confidence to the "donor-investor," credit grantor and alumni in knowing that the institution is operating responsibly in these challenging times.

Methods Summarized as Checklist

The methods discussed in this paper may not be new to some NACUBO member institutions; rather they represent tried and true experiences of good day-to-day management. Nonetheless, they are summarized here as a kind of checklist with the hope that one or more methods may prove to be useful or perhaps stimulate the reader in improving or building on the idea expressed. These methods have been "kitchen-tested," and according to the chief business officers in the employing institutions, represent procedures felt to be essential in controlling expenditures and arriving at year-end within or under the authorized budget.

1. *Faced with declining or stable enrollments, some boards of trustees have imposed on administrators the admonition that expenditures must not exceed revenues,* and that the revenue sector therefore be constructed very conservatively, on a basis equal to or less than the number of students the previous year. The consequence is a conservative expenditure budget called the "A" budget—practically guaranteed to result in a balanced state. The list of requested expenditures beyond the "A" budget are further prioritized into "B" and "C" categories. After enrollment is known in the fall, the "B" items are authorized to the extent of additional resources realized. The "C" items are funded, assuming sufficient resources, but not until after spring registration and when other sources of revenue are assured. Hence this method does not commit the institution beyond realized resources at any point in time.

An interesting parallel adopted by several institutions recently is to increase salaries of faculty and administrators in two steps rather than commit a fixed amount six months in advance of the next academic year. If it is determined that salaries will increase by 7 percent, then perhaps 5 percent is committed at the usual contract time with 2 percent added in September, retroactively, when enrollment is known.

The system described above, although conservative, is supportable in the writer's opinion only if it is conducted within the framework of a five-year budgeting plan. Adjustments can be made within a described plan and be consistent with the institution's established goals and objectives. The consequence of this approach, without a long-range plan, condemns an institution to a hazardous year-to-year operation whose mission may or may not be fulfilled.

2. *In most small colleges with a small budget office staff, the premise is maintained that each budgetary head is at all times in control of his or her budget* and will therefore discuss budget problems with the functional vice president or dean. Management by exception is therefore employed. Although this budgetary control is rightly considered part of a department chief's responsibility, constant monitoring is necessary. Thus, some kind of monthly or quarterly budget report is prepared in all institutions for the use of budgetary heads and top managers.

The degree of sophistication of budget comparison reports varies widely. Several institutions with computer

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capability reported that encumbrance accounting is used. Administrators at several smaller colleges without a computer reported that, nonetheless, they attempt to post and report both payables and expenditures made. In some cases accounts payable is an integral part of the accounting system, and in others open purchase orders are recorded by hand, as memo entries, for budget reporting purposes only. In all of the above methods, the attempt is made to report to budgetary heads all commitments of funds at the end of a reporting period.

Accurate, Timely Reports Are Essential

One of the causes of overexpended budgets is the lag between funds committed and payments actually made. Many department heads rely solely on reports from the business office for budget information. From some institutions, on the other hand, it is reported that rather elaborate books of account are kept by certain departments. Neither approach is desirable. The only way of discouraging "subsidiary accounting systems" all over campus is to assure up-to-date and accurate periodic reports from the business office to the budgetary heads. Copies of purchase orders issued, however, should be transmitted to originating departments so that departments may be better enabled to monitor their own budget balances.

3. *Several administrators reported that since they rely on a decentralized budget control system, that is, expecting that each budgetary head will control his or her own budget,* it is helpful to hold annual meetings with budgetary heads vis-a-vis budget policies and procedures. Continuous education and review of institution policies for expenditures of funds, budget amendments, purchasing, etc., is a desirable technique in making everyone on campus aware of the importance of budgetary control. It is obviously useful to new budgetary heads, but it does no harm to repeat the information once a year to the "old hands."

To assist budgetary heads in carrying out their responsibilities and in bringing about an understanding of college policies, a number of institutions prepare an operations procedures manual and make this document available not only to the business office personnel, but to the budgetary heads as well. This is simply good management and every institution ought to have such an operations manual.

4. *Affixing proper budget authority is of vital importance.* Several administrators reported that problems occur when various members of one department order supplies or when someone other than the department chief is designated as the budgetary head. Only one person should be authorized to commit department funds. In emergency situations or in the absence of the designated person, the functional vice president should authorize expenditures.

In some institutions it is required that the functional vice president or dean countersign all requisitions pertaining to capital equipment or renovation work orders as a further check on this important aspect of the budget.

There are certain budget elements or departments that habitually overspend or overcommit their budgets. After a period of time the chief budget officer learns who these offenders are and monitors their budgets closely. In such situations, at least one college has transferred budget authority from the offending department directly to the dean.

5. *Purchasing techniques generally flow from sound management procedures.* Most institutions reported that purchases cannot be initiated without the issuance of a requisition and purchase order. In order to enforce this policy several administrators have notified vendors that their institutions will not honor invoices without a valid purchase order or other authorization that would commit the institution. All personnel in these institutions are informed of this procedure and are advised that they will be personally responsible for any purchases made outside the system.

Many administrators reported that they have instituted a cut-off date near fiscal year-end for purchases. This cut-off date varies from 30 to 90 days. After the cut-off date, purchase orders are processed only by special permission, usually from the functional vice president. The theory underlying this policy is that given the normal lead time for ordering and obtaining materials, the intended need becomes questionable. Obvious exceptions would exist in high turn-over areas such as food service, bookstore, and the maintenance areas. Discretion is used in all cases.

One college reported an unusual purchasing technique: It bases its purchases on the calendar year instead of the fiscal year. Purchases are, therefore, made for the spring, summer, and fall semesters in that order, delaying cash outlays initially, and tieing supplies closer to enrollment. This system, it is reported, eliminates the rush to spend the budget at the fiscal year-end.

6. *In order for budgetary department heads to have confidence in the business office staff and for the integrity of the budgeting process,* it is important that there be swift and accurate reaction to purchase requisitions. One institution reported that all purchase requisitions are batched each day and transmitted to the controller for action. If the requisition is within the approved budget,

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purchase orders are processed at once with a copy to the appropriate department. On the other hand, if the budget balance is insufficient, the requisition is immediately returned to the originator with an explanation.

Budgetary Control as a Management Tool

It behooves the budget officer to use discretion and judgment in all instances. For example, if a requisition is in such an amount as to consume the entire budget allocation at the end of the third month of the budget year, questions need to be raised with the appropriate persons. This is part of the ongoing monitoring process.

It should be emphasized that for budgetary control to be wholly successful, academic department and supporting department heads must be clearly aware that the administration is indeed employing the budget as an important management tool; that the budget is being used, for example, for salary increments, measuring and monitoring progress, and judging effectiveness and efficiency of operating units. When this has been firmly established, the institution will have moved a long way toward a managed budget. There is simply no substitution for adequate communication and firm application of adopted policies.

7. *A troublesome area for many institutions is that of the print shop (communication services or comparable central service supplying mail, print, duplication and binding services).* Departments tend to "shop" print services, weighing campus printshop costs against commercial printing costs. One institution reported that it is stipulated that no printing may be done off-campus without the job first being reviewed by the college's own services. If the institution does not have the capability to accomplish the task, technical print shop personnel are then utilized to develop and evaluate competitive outside bids.

8. *The budget process must be realistic; it must be recognized that changes are bound to occur.* The process, therefore, should include an amendment procedure. Most institutions surveyed reported that their budgets are subject to amendment during the year, but the degree of formality, extent, and authority vary widely.

The most common method employed for amendment is the provision of a contingency fund of some stated amount. In the sample, contingencies varied from 1 to 5 percent. It is extremely difficult to provide the higher percentages in today's environment, and most colleges reported contingencies in the 1 to 2 percent range. It is interesting to note that administrators are viewing contingency funds in two ways. The traditional use of contingencies is to cover expenditures for unanticipated events —what one college president referred to as the "busted boiler" account—or price rises in essential supplies or equipment. Today, with declining enrollment, uncertain investment income, and more competition for gifts, administrators are viewing contingencies as a buffer against unrealized revenue from whatever source. Thus the contingency fund must operate in both the revenue and expenditures sectors.

Most colleges reported that the contingency fund could be utilized only in situations approved by top managers, such as the president or chief business officer. At least one institution indicated that only the board of trustees could authorize transfers from contingencies. The former practice is probably the more common.

Operating departments must work within the confines of their own budgets, seeking any additional budget allocations from their functional vice president or dean, who has authority to transfer funds between or among departments in his or her area of responsibility.

Institutions vary as to the degree of freedom given to operating heads for transfers between line items. Several administrators apply restrictions only to particular items and require higher authority for approval of these transfers, generally in the area of personnel (salaries and wages) or of equipment. Thus, for example, a department chief cannot decide to save the approved equipment budget and then use these funds to hire another secretary-clerk or vice versa. Both personnel and equipment are sensitive areas that often involve future budget commitments, and hence need to be planned wisely.

Many administrators indicated that they use a budget amendment form which is initiated by a department head and provides for approval by the functional vice president or dean. Approval by the president is often necessary, especially where authorization of the governing board is eventually required. A sample is shown as Figure 1.

Financial Vice President May Initiate Changes

Budget changes may also be initiated by the financial vice president when additional revenue sources are found. If the institution has prioritized its expenditure requests, that listing is funded in accordance with the new resources available. More commonly, the entire list is reviewed by the executive council (administrative or budget committee) for funding in mid-year. It should never be the "squeaky wheel" that always gets the grease; rather there should be a fresh look at what may be changed conditions. Again, wise and thoughtful planning is paramount to insure that the college or university is always moving toward its stated goals and objectives, and that, in fact, the additional expenditures are attuned to the central mission of the institution.

The management decision always arises as to the degree of freedom an operations or activity manager ought to have in carrying out the goals and objectives of his or her department. An operating head who meets goals and runs a quality program should be given optimum flexibility. It is the hallmark of nonprofit institutions that considerably less freedom is afforded department heads

Sunrise College

BUDGET AMENDMENT REQUEST

Operating and Maintenance Department

Acct. No.	Account Title	Approved Budget 10-30-75	Budget Revision Request	Increase (Decrease)
8430.010	Salary & Wages—custodial	70,000	77,000	7,000
8800.100	Supplies—building trades	58,000	54,000	(4,000)
8800.200	Supplies—grounds	42,000	39,000	(3,000)
	Total			-0-

Reason: *Additional custodian needed to staff new social science hall not budgeted for. Supplies for building needs and grounds may be reduced based on present inventory and anticipated use.*

Date *12-18-75* Dept. Head *O. Johnson*

Date *1-5-76* Functional V.P. *A. J. Knoll*

Date _____ President *not required*

Figure 1

than their counterparts in profit-making enterprises in order to insure that institutional policies are followed and goals and objectives are met. Unfortunately, these restraints are necessary where there is no profit motive and where often the academic department chief is placed in the peculiar position of dual loyalty: to the institution served and to a discipline or professional goals. Managers need to strike the right balance between freedom and restraint so that department heads may maximize their abilities.

In the survey, it was asked whether any institution had effected a system whereby department heads or program unit managers were rewarded for ending the fiscal year under budget. All administrators replied that they do not allow budget "carry-overs" (through an appropriated fund balance). Any under-budget funds usually were needed to offset overages or simply reverted to the current funds fund balance. Although not implemented, a reward system under consideration by one business officer would reallocate for the following year one-half of the savings by a department to be utilized for equipment or other items not previously funded.

There is merit in some kind of reward system as an incentive to managers for operating in the most efficient manner. Industry utilizes incentives in the form of profit-sharing, bonuses, and promotions. Administrators in higher education have not considered this area with the kind of creativity it demands. Although profit-sharing and bonuses are not possible, other means should be discovered, perhaps of a more subjective nature. Lacking the profit motive, however, care and judgment must be exercised lest a department head hold back funds necessary for good programming in order to be the recipient of a reward.

In preparing the periodic budget reports, it is axiomatic that actual expenditures to date are compared with the most current approved budget authorization, as amended. Comparing the actual expenditures to date with the annual approved budget for variance analysis reporting is of less value than comparing the actual expenditures with the appropriate budget amount that has expired at the end of the reporting period.

If that reporting period is six months, December 31 for July 1 fiscal years, it does not necessarily follow that 50 percent of each budget line item has expired. On the revenue side, at December 31 for example, 60 percent of the anticipated tuition may be more appropriate than 50 percent, when one considers summer school revenue and a higher fall enrollment than spring. Or, because the major alumni fund drive and other fund-raising activities are scheduled for the spring, gifts realized at December 31 should be compared with perhaps only 30 percent of the annual gifts budgeted.

Similarly, each budgeted revenue item and each budgeted expenditure item is analyzed or more appropriately predetermined in the budget format for that portion anticipated each month (or quarter). The resulting variance

analysis then can give rise to those items demanding managers' attention. Managers can focus on those differences that signal important deviations from the "game plan" and attempt to cause a course correction in a timely manner rather than after it is too late. Figure 2 shows a form of variance analysis report for the revenue sector.

Appropriately, institutions are becoming fiscally conservative and cautious in their spending. Several administrators indicated that they are purposely establishing a "rainy day" fund against the anticipated storms of the 1980s. One small college administrator indicated that it was intended, as a matter of policy, to create a one million dollar "surplus" over the next five years (through subsequent transfers from current fund balances to quasi-endowment fund balances) out of current operations. In order to bring this about as painlessly as possible, program planning and budgeting must be carefully orchestrated or "quality distress" could set in. Furthermore, tight budgetary control is essential, requiring constant and close monitoring. Some or all of the suggested means here are necessary to carry out the plan.

Thus budgetary control demands not only systems for creating the proper environment and attitudes among the responsible department or program heads, but a process that provides current and meaningful reports to the administration. It is essential that reaction time be minimized.

The small independent colleges must employ the best management techniques and develop the most sophisticated planning in their daily operations if they are to survive the decade ahead and remain viable alternatives for future students.

Sunrise College

BUDGET ANALYSIS REPORT

For the *Six* Months Ended *December 31,* 1975

Revenue	Annual Budget As Amended	Budget Expired This Period	Actual Amount Realized	Variance
Tuition	$3,200,000	$1,920,000	$1,930,000	$10,000 [1]
Endowment Inc.	50,000	25,000	23,000	(2,000)
Private Gifts	300,000	90,000	95,000	5,000 [2]
Other	50,000	30,000	29,000	(1,000)
Subtotal	$3,600,000	$2,065,000	$2,077,000	$12,000

[1] Tuition for fall part-time students exceeded estimates

[2] Private gifts included settlement of A. White estate ($10,000)

Figure 2

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